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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Summit Agenda . . .

Like the opening of the baseball season, the annual international Economic Summit meeting has become another rite of spring. This week the leaders of the seven largest economies of the free world along with the President of the European Economic Community (EEC) will convene in Bonn, West Germany for the ninth annual Summit meeting. With the U.S. economic upswing now approaching its 30th month, and slowing down, and with European and Japanese economic performance unable to set the pace for global growth, the meeting will undoubtedly confront the issues of closed markets, the over-valued dollar and sluggish economic growth. Unfortunately, however, even though there is general agreement on what the economic problems are, the questions of who is responsible and how the problems are to be cured defy consensus.

Although the talks will range widely, world trade will clearly occupy a priority position on the agenda. President Reagan has made reform of the existing trade system a major goal. The principal objective of the United States is to get a firm commitment from the other participants for trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT) by early 1986. It is hoped that these negotiations will resolve several issues of particular interest to the U.S. Reflecting the changes in both the structure of the U.S. economy and of exports since World War II, the U.S. is pressing urgently for the extension of GATT to cover trade in services as well as trade in merchandise. Another concern is that world trade in agricultural products be protected from the dumping of agricultural surpluses on world markets at prices below costs by countries which, for political reasons, subsidize their agricultural sectors while at the same time erecting barriers to agricultural imports, themselves. Most important, however, is the concern of the Reagan Administration about the growth of protectionism both here and abroad.

. . . Centers On Trade . . .

Sentiment in favor of protectionism in the United States has been fostered in recent years by the secular weakening of the manufacturing sector of the U.S. economy and the consequent loss of production and jobs. The strength of the dollar has exacerbated the situation by making U.S. manufacturers even less competitive abroad while at the same time encouraging a massive inflow of imports. Indeed, a substantial portion of recent U.S. economic growth has been fueled from abroad. The consequent massive trade and current account deficits which the flood of imports has generated, when taken in combination with the huge federal budget deficit, has engendered a protectionist attitude in Congress which seeks to keep dollars, production and jobs at home.

What is more, attention has again been focused on Japan, which last year had a record $37 billion trade surplus with the United States. The existence of a wide range of economic, political and cultural barriers to imports into Japan has led to the belief in many quarters that the relative openness of U.S. and European markets to Japanese goods is not being reciprocated. In spite of past agreements and concessions by the Japanese it would appear that obstacles to exporting to Japan continue to exist. While the leaders at the Summit may be reluctant to criticize any one of the other attendees directly, trade relations with Japan will no doubt be a major topic.

The key area of trade conflict between the United States and Japan centers on the so-called Market Oriented Sector Specific (MOSS) items of U.S. exports. These include telecommunications equipment, wood products, pharmaceuticals, medical equipment and electronics. These are priority items for the United States. Greater access to the Japanese market for these products is being intensely negotiated on several levels and there is a feeling that there must be major concessions at the Summit or soon thereafter, if U.S. pressure toward protectionism is to be blunted. Other trade matters, including barriers against trade in other products, are under continuing negotiation, but with less urgency and energy than the MOSS items.

The growth of protectionist sentiment in the United States is a matter of concern in Europe which owes a substantial part of its growth in the last two years to

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exports to the United States. Western Europe fears that Congressional outrage at the trade deficit might result in restrictive trade legislation which would threaten European exports to this country as well.

. . . The Dollar And Growth

Although the Europeans share U.S. concerns about the problems of Japanese trade, they also view the Summit meeting as an opportunity to deal with some of the problems they have with the United States. The French, for example, have tied their acceptance of the idea of trade negotiations to concurrent discussions on the international monetary system. This reflects their concern—shared with other Summit participants—about the strength of the dollar. In spite of the fact that the rise in the value of the dollar set the stage for the 57 percent growth in the value of EEC exports to the U.S. between the end of 1980 and the end of 1984, it has had negative effects as well. Not only did the cost in domestic currency terms of dollar-priced commodities (especially oil) escalate along with the dollar, but high interest rates in the U.S. attracted the capital necessary for their economic growth to the U.S., starving their domestic economies. Consequently, Europe finds itself substantially in agreement with the United States on the issue of trade with Japan, but critical of the United States

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/24/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	172.272	– .325	+ 6.739
Loans to Depository Inst.	1.118	– .080	– .595
Float	.665	+ .066	– .169
Total Reserve Bank Credit	186.236	– .610	+ 8.558
Treasury Deposits with Federal Reserve Banks	6.016	+ 2.296	– 2.591
Currency in Circulation	180.186	– .882	+10.063
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.686	+ .399	+ 2.493
	4/24/85		
Member Bank Reserves:			
Total Reserves Held	41.940	+ 1.176	+ 3.971
Excess (Deficiency)	.950	+ .431	+ .382
Net Free Reserves	.558	+ .519	+ 1.178
		% Change Since	
Monetary Aggregates†		**Three Months Ago***	**Year Ago**
M1 (4/15/85)	573.6‡	+ 8.6‡	+ 6.6‡
M2 (March '85)	2,429.2	+ 9.8	+ 9.0
M3 (March '85)	3,054.8	+ 8.0	+ 10.5
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 4/26/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.80%	8.05%	8.25%
* Federal Agencies	8.25	8.50	9.07
* Project Notes–Taxfree (46% Taxable Equivalent)	8.89	9.26	9.63
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market–Prime	8.30	8.65	9.40

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	7.85%	May	8.20%
15- 29 days	7.93	Jun.	8.20
30- 59 days	8.05	Jul.	8.25
60- 89 days	8.10	Aug.	8.35
90-179 days	8.15	Sep.	8.45
180-239 days	8.20	Oct.	8.45
240-270 days	8.20		

‡Industrial Paper–Prime			
30- 89 days	8.08%	†Federal Funds Effective Rate	8.05%
90-120 days	8.10		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85	$ 3,820	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85	$ 1,668	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85	1.3	4.3	10.1
Change in Consumer Prices*	Mar '85n	6.0%	3.6%	3.6%
Change in Producer Prices*	Mar '85	2.4%	– 1.2%	6.0%
Civilian Employment (Thousands of Persons)†	Mar '85	107,119	106,685	104,123
Unemployment as % of Civilian Labor Force†	Mar '85	7.3%	7.3%	7.8%
Personal Income*	Mar '85	$ 3,156	$ 3,140	$ 2,941
Leading Indicators Composite Index (1967=100)†	Feb '85	167.5	166.4	166.5
Industrial Production Index (1967=100) †	Mar '85	165.4	164.9	160.8
Net Change in Consumer Installment Credit †	Feb '85	$ 10.37	$ 7.22	$ 6.19
U.S. Merchandise Trade Balance †	Feb '85	–$ 11.45	–$ 10.29	–$ 10.38
Plant and Equipment Expenditures*	2nd Q'85	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Mar '85	1,895	1,631	1,700
New Construction Expenditures*	Feb '85	$ 320.6	$ 316.2	$ 300.4
Total Business Inventories †	Feb '85	$ 576.9	$ 574.8	$ 531.9
Total Business Sales †	Feb '85	$ 419.2	$ 418.3	$ 401.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

on the issue of U.S. monetary and fiscal policies which they perceive as having resulted in high interest rates worldwide and the strong dollar—matters which are inevitably linked to trade.

The United States, on the other hand, views the conservative monetary and fiscal policies which characterize most of the European countries as the reason for low European growth rates during this recovery. These policies are also blamed for weakness in other currencies, the lack of attractive domestic investment opportunities and high unemployment. Japan, too, has been criticized in this respect, as well as for its reluctance to open up its financial markets to overseas investment. Seeing the need for Europe and Japan to take on more of the burden of sustaining global growth, the U.S. at the Summit will be a strong advocate of an easing of restrictive national economic policies (on the U.S. pattern, of course).

But European leaders are resisting pressure from the U.S. to reflate their economies. They fear a rapid inflow of Japanese and U.S. goods if the dollar weakens while at the same time their export markets decline. Further, the memory of the negative results of the French reflation attempt in 1981 is still fresh in their minds.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/10/85)	156,108	– 690	+13,720
New York City (4/17/85)	32,987	+ 405	+ 4,399
Commercial Paper (4/17/85)	251,997	+ 2,933	+45,374

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/10/85)	254,346	– 1,983	+ 19,542
New York City (4/17/85)	61,926	+ 716	– 54

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/10/85)	664,486	– 3,903	+ 67,419
New York City (4/17/85)	147,299	+ 5,104	+ 12,664

Financial Markets

	Friday 4/26/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.04%	– .01	– 1.91
180-Day Bills†	8.47	+ .07	– 1.98
Longest Bills†	8.90	+ .05	– 2.10
Recent Issues:			
9 3/4s 4/30/87 (When Issued)	9.89	NA	
11 1/4s 3/31/89	10.64	+ .17	
11 1/4s 2/15/95	11.34	+ .20	
11 1/4s 2/15/15	11.42	+ .17	
Municipals:			
Bond Buyer–20 Bond Index* (4/25/85)	9.39%	+ .14	– .55
Blue List Total ($ Million)	$1,542	+$ 314	– $ 43
30-Day Visible Supply ($ Million)	$4,330	+$1,161	+ $1,807
Total	$5,872	+$1,475	+ $1,764
Corporates:			
Moody's Aa Composite (4/25/85)	12.60%	+ .05	– 1.01
30-Day Visible Supply ($ Million)	$ 360	–$ 485	– $1,345
Stocks:			
Dow-Jones Averages:			
Industrials	1,275.18	+ 8.62	+ 106.11
Transportation	586.25	+ 1.33	+ 88.51
Utilities	154.75	– .46	+ 29.36
65 Stocks	513.98	+ 2.10	+ 60.04
Standard and Poor's 500 Stocks	182.18	+ 1.07	+ 22.29
N.Y.S.E. Composite Index	105.52	+ .52	+ 13.58
N.Y.S.E. Avg. Daily Vol. for Week (000's)	96,914	+ 5,254	+ 10,768

* 46% Taxable equivalent 17.39%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/26/85	Week Ago
Overnight	8.06%	7.75%
1 month	8.31	8.25
3 month	8.56	8.44
6 month	8.94	8.69
1 year	9.63	9.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.30%	11.25%
Long Term (7 to 15 yrs.)	11.55	11.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/26/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01576	63.4500
Canada	.7315	1.3670
Denmark	.08826	11.3300
France	.1040	9.6150
Germany	.3172	3.1530
Italy	.0004966	2013.50
Japan	.003956	252.78
Mexico	.004065	246.00
Netherlands	.2803	3.5675
Switzerland	.3800	2.6315
U.K.	1.2015	.8323

Woodcut illustration from Columbus' letter to the Spanish Court, 1493

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